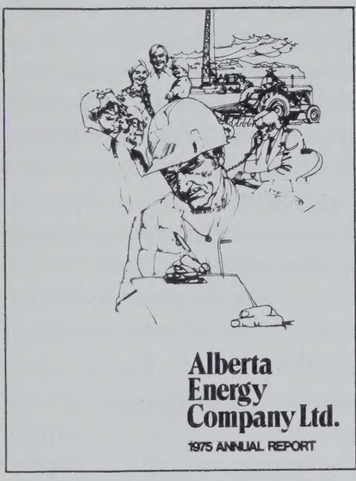
Alberta Energy Company Ltd.

1975 ANNUAL REPORT



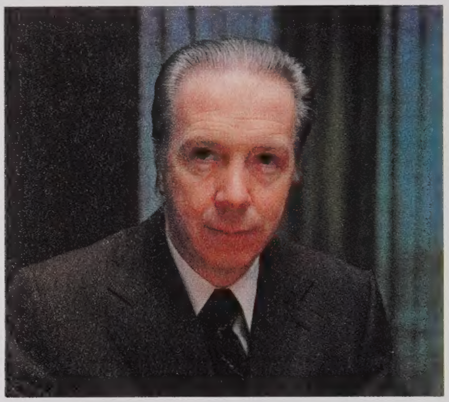
The cover of this first Annual Report depicts people from all avenues of life who are participating in Alberta's development through shareholdings in the Alberta Energy Company Ltd.

Contents

Annual Meeting

The annual general meeting of shareholders of Alberta Energy Company Ltd. will be held at the Jubilee Auditorium in Edmonton, Alberta, on April 20, 1976. Formal notice of this meeting and proxy material are enclosed.

Additional copies of the company's 1975 annual report can be obtained without charge by contacting the office of the Secretary of the company at Alberta Energy Company Ltd., 540 - 5th Avenue S.W., Calgary, Alberta, T2P 0M3.



President's Report to Shareholders

HIGHLIGHTS

1975 was an exciting, challenging year for AEC. It was the first fully-operational year for the Company, during which the foundations were laid for one of the most unique corporations ever established in this country.

When the year commenced, AEC had a staff of 4 and a debt of $1.7 million, all of its shares were owned by the Crown in the right of the Province of Alberta, and there were essentially no operations in progress. At year-end the Company had a staff of 43, $123 million in working capital, over 60,000 public shareholders and several major projects underway.

CORPORATE AND MANAGEMENT

As AEC is just beginning, it is particularly appropriate to comment on the people associated with the firm. AEC does not employ, nor have as a director, any member of the government or any member of the public service. The Board consists entirely of independent Canadian businessmen. Senior staff and other employees, recruited from across Canada, joined the firm in 1975. The staff is growing, with concentration on quality, not numbers, and as this report goes to press, there are 50 people in the force. They are already demonstrating fine ability to work together as a team, initiating ideas and fostering profitable, responsible growth of the Company. Information about officers and senior personnel appears on page 24 of this report.

SALE OF SHARES

By far, the most significant event in AEC's first year was the sale of shares to the public. In accordance with the AEC Act, Albertans were offered preference and priority in the purchase of shares. This caused enormous logistics problems in determining the size of the issue, organizing for distribution of shares, and developing investor interest after initial share marketing. All shares were sold on an agency basis, rather than by the conventional underwriting approach.

Extensive plans for sale of shares in other parts of Canada were never used — Albertans oversubscribed the issue during the two-week Alberta Priority Period. This oversubscription turned out to be a mixed blessing, as it helped initiate two other events. First, some of the Alberta purchasers obviously visualized a high, almost-overnight profit; the share turnover is estimated to have been nearly $10 million in the first few weeks alone. Second, as no shares were available for purchasers outside of Alberta, there was much less knowledge of, and interest in, the Company by investors in other parts of Canada.

The Company is pleased with its widespread shareholding — more than 60,000 shareholders — and takes special pride in having more Canadian shareholders than nearly any other Canadian corporation. Efforts to reach new investors, many of whom had never owned any shares before, were certainly well received. Students of the share market will find that the data on this unique public offering, which is outlined on page 13 of this report, make interesting reading.

The Company is unable at this time to determine the number of shares that have already been sold by Albertans and repurchased by Canadians living outside of Alberta. Our best estimate at the time of preparing this report, is that Albertans own about 95 % and other Canadians 5 % of the total shares outstanding. These numbers include the shares held by the Province of Alberta.

Effective the date of sale of shares to the public, the Company ceased to be classified as a Crown Corporation and became subject to the same tax rates as other corporations.

INVESTMENT AND OPERATING POLICIES

AEC has accepted the formidable challenge of progressing, over a short time period, from just an idea to a very large and profitable Alberta-based corporation. It is not an easy assignment and there are virtually no precedents. Furthermore, AEC does not possess the inherent advantages of well-established on-going corporations, such as existing plant facilities or personnel. AEC must gain momentum in a very short period of time — an exciting, interesting challenge which can and will be met.

This Company's role, as seen by the Board of Directors and Management, is to provide a special opportunity for Albertans and other Canadians to profitably participate in the industrial and energy-related growth of the Province. We intend to vigorously pursue that objective, keeping in mind the following criteria:

— The Company will invest in those endeavours which yield satisfactory profit, commensurate with risk.

— Investment will usually be made in partnership or direct association with others who have expertise in the particular project being undertaken.

— Investments will be made in such fashion that profit and cash flow tend to flow directly through to the Company, rather than being dependent on dividends declared by others from a series of minority holdings.

AEC's initial priorities have been building up senior staff; obtaining equity capital; developing early cash flow from Suffield; and finalizing the Syncrude Utilities Plant and Pipeline agreements so that cash flow from these investments will commence to supplement the earnings from Suffield and interest from temporary cash investments. Earnings and cash flow will build up gradually as project investments are completed.

Our second priority has been the development of the Company's preliminary strategy in regard to the petrochemical industry and certain related aspects, such as underground storage. Simultaneously, Steel Alberta has been established so that plans for suitable investment in the steel industry in Western Canada can be advanced if it is determined that there is reasonable anticipation of satisfactory profits.

PROJECTS

Development of Suffield shallow gas reserves has now commenced and the Company is optimistic that most of the Block will be developed in less time than the original 12-year schedule. Suffield shallow gas offers promise to AEC of near-term cash flow and is of special significance for that reason.

Along with shallow gas development, there will be commencement of extensive exploration for gas and oil in the deeper horizons of the Suffield Block. This exploration, to be conducted on behalf of AEC by an oil company, is by no means certain to add to Suffield's reserves and production. It does, however, offer potential for new discoveries, and the exploratory drilling program will be followed with great interest.

At the time of writing this report, there is an indication that the various Syncrude participants are finalizing arrangements for construction and operation of the giant Syncrude complex. AEC's role in Syncrude would be that of an owner of two service facilities. One such facility, to be owned two-thirds by AEC, is the $300 million power and steam plant; the other, to be wholly-owned by AEC, is an $80 million pipeline. Final decisions and contractual arrangements for these ventures will be determined soon. AEC's position is that of willingness to own the facilities provided that the rate on employment of its capital is at a satisfactory level; it seems likely that such an opportunity will be realized.

AEC has an option, but not an obligation, to own a portion of the total Syncrude complex. It can, if it chooses, at any time up to six months after Syncrude is in production, acquire from 5% to 20% of Syncrude by paying the equivalent percentage of costs. Since capital and operating costs of the plant will, at that time, be known or be capable of fairly precise measurement and world crude oil price trends should be more determinable, AEC has an opportunity to share in a large project after the economics have been more nearly defined and the risks more precisely measured.

AEC has been studying various means of investing in the petrochemical industry. In conjunction with other companies, AEC has applied for an industrial development permit to construct a benzene plant. There is much work needed before an investment decision can be made but this $250 million project, to be owned up to 51% by AEC, is an important first step in the Company's initial petrochemical activities. Competitors in this field are extremely large and well-established, and commencement of the petrochemical industry in Alberta is going to require dedication of extensive effort and capital.

Interests of 50% and 49.2% are held in Steel Alberta and Pan-Alberta respectively. At the moment Steel Alberta, other than its shareholdings in Interprovincial Steel, is only a corporate "gleam in the eye," a study group to see what, if any, area of steel investment in Western Canada would make economic sense. Pan-Alberta is a gas brokerage company with gas reserves under contract.

Our next activities — determining other types of investments that are particularly suited for AEC and beginning the preliminary overviews of these opportunities — are already in progress.

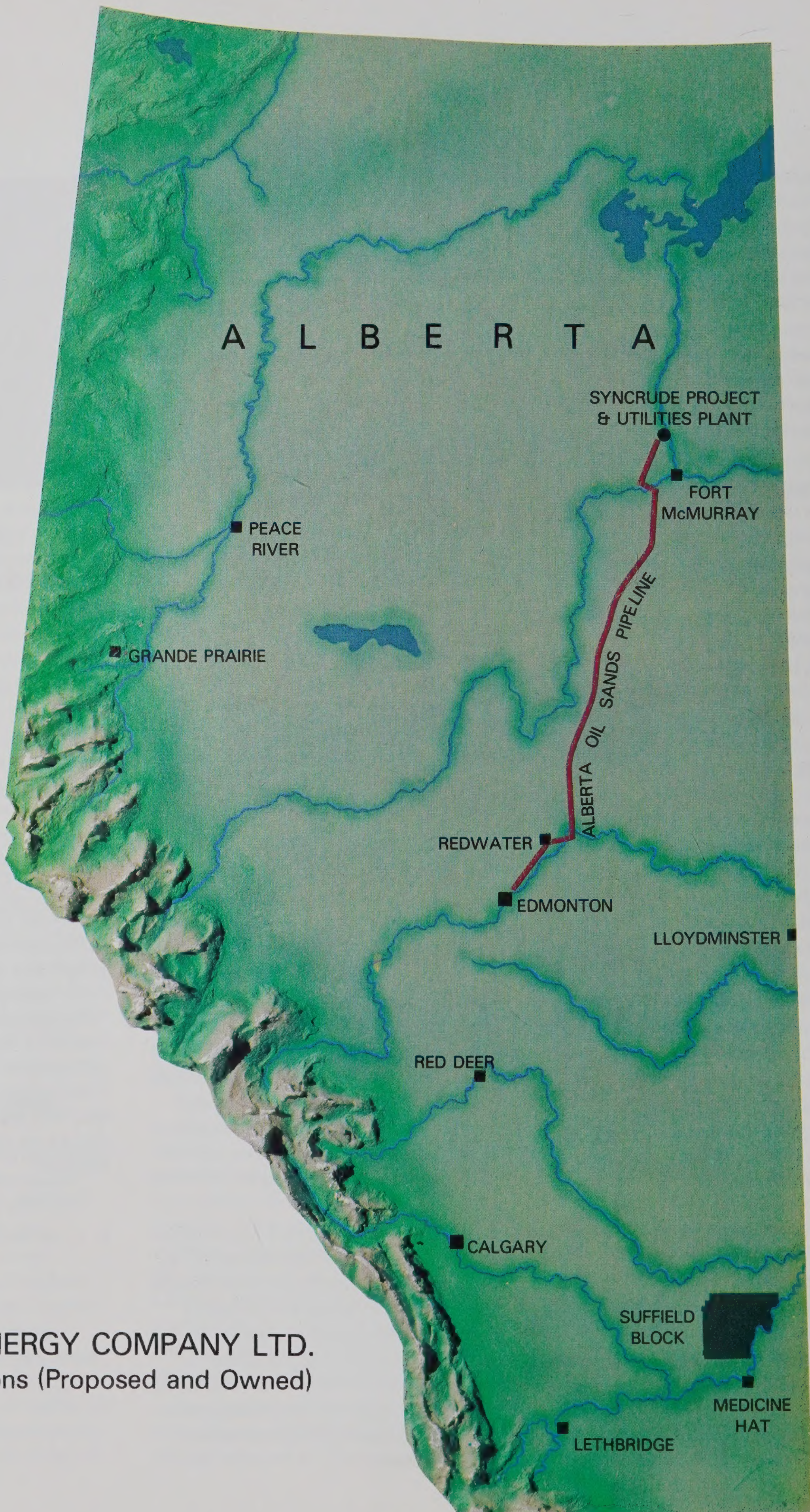
COMPANY OUTLOOK

Since the sale of shares to the public, AEC is no longer a Crown Corporation. AEC now pays taxes to the federal government, as do other companies, and 1976 income will reflect this change. After provision for taxes, the outlook is for 1976 net income per share to approximately equal that of 1975. Suffield shallow gas sales should start providing cash income in 1977 and the deeper Suffield exploration drilling offers speculative potential. Income will be earned from the Utilities Plant and Pipeline from the time that documentation is completed, presumably in the near future. Decisions affecting income in 1980 and beyond are already under consideration. The Company seeks a balance of long-term and mid-term investments and a mix of low risk ventures with higher risk ventures that have greater profit potential.

AEC has a prominent "public profile": its uniqueness, ownership and size will make it a continuing target of critical examination. This is as it should be. Our object is to establish a large, profitable, Alberta-based company that has a significant ownership in the Province's future, and we believe that 1975 was a successful first year in AEC's long-range program to meet this objective.

Sincerely,

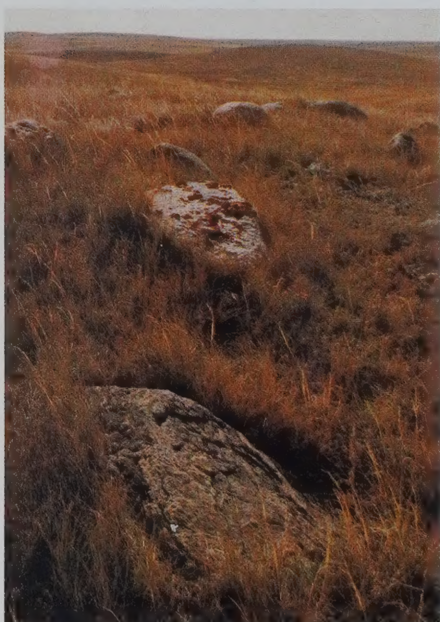
D. E. MITCHELL



ALBERTA ENERGY COMPANY LTD.
Project Locations (Proposed and Owned)

Principal Projects and Investments

SUFFIELD BLOCK



Typical Suffield terrain

The Suffield Block is comprised of 650,000 acres in the Suffield area near Medicine Hat. In September, 1975, AEC purchased from the Government of Alberta the petroleum and natural gas lease rights in approximately 613,000 of those acres. Suffield, AEC's most important asset at the present time, will be developed in stages, in accordance with the Surface Access Agreement. Its value will steadily increase as development proceeds.

The Suffield acquisition price was $54 million, of which $14 million was paid in November. Another $10 million payment will be made three months after gas sales begin. The balance is due in three annual instalments of $10 million each, beginning one year after AEC recovers, out of its share of production (net of royalties) an amount equal to all costs and expenses of the Suffield Block, including interest on capital investment.

Once the $54 million purchase price has been paid and recovered by AEC out of its share of net production, the Government of Alberta may elect to receive the greater of its regular royalty or 50% of net production proceeds. AEC does not expect that this provision will result in larger payments to the Government for gas produced from the presently proven area under current royalty rates, but it could apply if very substantial discoveries are made in deeper horizons.

AEC's share of proven plus probable marketable natural gas reserves in the Suffield Block was estimated by McDaniel Consultants (1965) Ltd. to be, as of July 31, 1975, 1.8 trillion cubic feet, before royalty. Each of the 77 shallow exploratory wells drilled in 1973 and 1974 yielded varying quantities of commercial gas which indicates that the entire Suffield Block is likely to be developed.

Because the surface rights to the Suffield Block are owned by the Government of Canada, and the area has been reserved by the Department of National Defence for military purposes since 1941, it was necessary to negotiate a firm access agreement for natural gas exploration and development and for oil and gas exploration.

The Access Operating Agreement divides the Suffield Block into six development areas, as shown on the accompanying map. The agreement provides firm access rights of two years for each area starting with Area A in 1976-77 and ending with Area F in 1986-87. Military activities will continue in the five areas not being developed. This development schedule — to develop the entire six areas over a twelve-year period ending in 1987 — can be accelerated, however, if agreed to by AEC and the Base Commander of Canadian Forces Base Suffield. Acceleration might be achieved by AEC conducting operations in the other areas of the Block when they are not in military use. Military activity is largely during the summer months. The military does not have access to the area designated as environmentally restricted comprising about 16% of the Suffield Block. The Company expects it will be permitted access after an environment impact study is conducted to determine what precautions must be taken to protect the flora and fauna.

The first of the six areas to be developed, Area A on the map, is approximately 105,000 acres. Late in 1975, AEC received several proposals from natural gas operators, relating to development of the Suffield shallow gas reserves. After careful deliberation, AEC decided to develop the Suffield Block on its own in order to maximize the profits accruing to shareholders. A wide range of consultants, drilling, and service companies and suppliers will be employed in carrying out AEC's development programs.

During 1976, AEC plans to drill over 200 wells, primarily to develop known shallow gas reserves in the Milk River, Medicine Hat and Second White Specks zones. Development of Area A is now underway. Additional 1976 drilling is also planned near the south and southeast edges of the Suffield Block, somewhat ahead of the original schedule.

The total shallow gas development and marketing program for 1976 is estimated to cost $16 million. It includes the construction of gas gathering systems and five compressor plants in addition to the drilling of wells. Discussions are currently being held with potential customers for natural gas.

The development now planned will penetrate proven horizons down to the Second White Specks Zone at a depth of approximately 2,200 feet. It is estimated that sediments with oil and gas exploration potential extend to about 7,500 feet.

Of the 77 exploratory wells drilled in the Suffield Block, 16 were drilled through the Second White Specks Zone, reaching the Mississippian formation at approximately 3,300 feet. At these deeper depths, two wells gave indications of commercial quantities of natural gas. While wells near the Suffield Block have proven reserves in three formations between 2,200 and 3,500 feet, not enough drilling has taken place as yet to indicate the potential of formations below 3,500 feet.

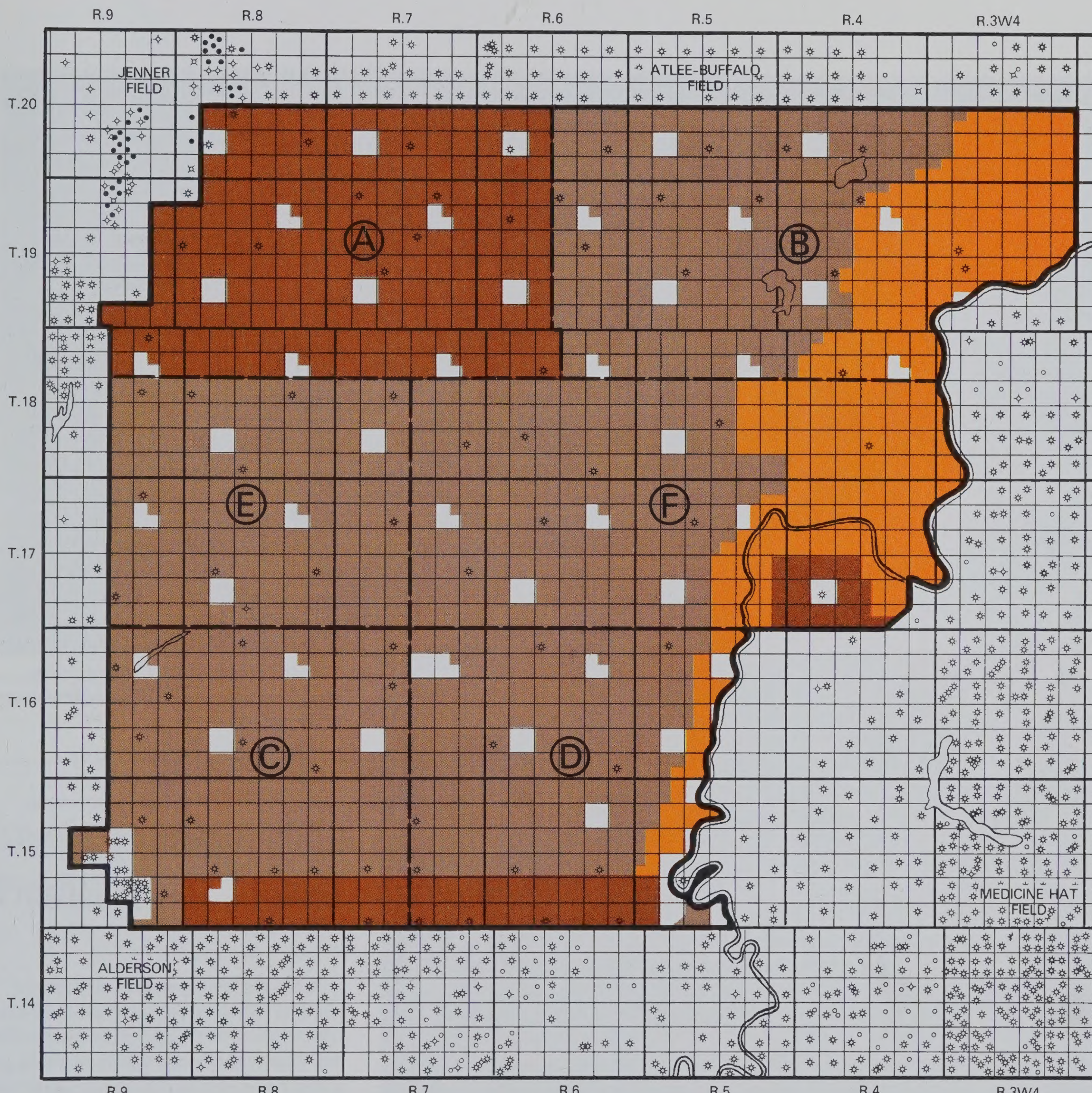
One of the 77 gas wells drilled in Suffield

Since AEC does not intend to engage in conventional oil and gas exploration in Alberta, proposals were requested from the oil industry for the exploration of horizons in Area A, below the 2,200-foot Second White Specks Zone. Nine exploration proposals were received and reviewed and AEC chose to enter into an agreement with Westcoast Petroleum Ltd.

In Area A, Westcoast is conducting an extensive seismic program and plans to drill 26 exploratory wells totalling about 100,000 feet in a one-year program which began in April. Two of these wells will test all formations down to 7,500 feet. Westcoast will pay all costs of exploration but AEC will retain at least a 50% working interest in any resulting oil or gas production. In the event that AEC carries its share of the costs after the exploration program, the Company's working interest becomes 70%, instead of 50%.

Other exploration activity will take place in the five remaining Suffield areas. This work will likely be co-ordinated with the surface access schedule for shallow development but plans will be flexible, dependent upon results obtained as the exploration program proceeds.

Drilling rig being erected for the first Suffield well



Suffield Block

WELL LEGEND

- ◦ LOCATION
- ✧ ABANDONED
- • OIL
- ☼ GAS

SUFFIELD BLOCK (100% AEC)

PETROLEUM AND NATURAL GAS RIGHTS HELD BY OTHERS

AREAS IN WHICH DEVELOPMENT WILL TAKE PLACE IN 1976

ENVIRONMENTALLY RESTRICTED AREA

On-going construction working toward the 1978 completion date of the Syncrude Utilities Plant

Syncrude Project

AEC has an option, but not an obligation, to acquire an interest in the Syncrude Project. This right may be exercised after the plant is operational. It is expected that the plant, designed to extract synthetic crude oil from bituminous sands, will be completed in 1978 at a cost of approximately $2 billion. AEC is currently negotiating agreements under which it expects to own a utilities plant providing power steam and other utility services for the Syncrude Project and to construct a pipeline to carry the plant product to Edmonton.

AEC Power Ltd.

By means of an affiliate — AEC Power Ltd. — the Company expects to share in the ownership of facilities which will supply electricity, steam and other services to the Syncrude Project. This $300 million Utilities Plant should provide AEC with a steady cash flow beginning in 1978, under a cost-of-service agreement.

Negotiations with respect to the construction, financing and operating responsibilities of the Plant are currently being finalized with the six Syncrude Project participants. AEC Power Ltd. will own the power-generating facilities; in turn, AEC will provide 2/3 of the equity capital required by AEC Power Ltd. and Calgary Power will provide 1/3.

When completed early in 1978, the Utilities Plant will have a capacity of 260 megawatts of electric power — a capability sufficient to satisfy about 50% of the power requirements of a city the size of Calgary or Edmonton.

Construction of the Utilities Plant has been underway since 1974. At December 31, 1975, approximately $59 million had been expended and the plant was about 20% complete, with expenditures continuing at approximately $8 million per month.

The sales contract for electrical energy and steam as proposed by AEC Power Ltd.

Another view of the Utilities Plant which will furnish power equivalent to 50% of the requirements of a city the size of Calgary or Edmonton

would require the Syncrude participants to make cost-of-service payments under all circumstances during the Utilities Plant operating period. Such payments would reimburse AEC Power Ltd. for all expenses incurred, including debt servicing costs as well as a return on equity investment. In addition, if the Syncrude Project should be completely abandoned subsequent to its completion, the Government of Alberta will guarantee the repayment of any principal amount of outstanding debt which was incurred to finance construction of the Utilities Plant.

It is proposed that the projected $300 million total cost of the Utilities Plant, including interest and earnings on equity during construction, will be financed on the basis of 90% debt and 10% equity. This unusually high debt level is believed to be feasible due to the all-inclusive cost-of-service contract and governmental debt guarantee. AEC will provide two-thirds of the equity required, or approximately $20 million, and Calgary Power Ltd. will contribute one-third or $10 million.

Alberta Oil Sands Pipeline Ltd.

Alberta Oil Sands Pipeline Ltd. (AOSPL), a wholly owned subsidiary of AEC, intends to build, at an estimated cost of $80 million, a pipeline from the Syncrude Plant, near Fort McMurray, to Edmonton to transport all synthetic crude oil which will be produced by the Syncrude Project near Mildred Lake. The proposed pipeline project should also provide AEC with a steady flow of income.

The proposed pipeline system (shown on the accompanying map) will run south from Fort McMurray to Redwater, connecting there with an existing oil pipeline. The Redwater pipeline will be upgraded to provide the Edmonton-to-Redwater section with the maximum capacity of 225,000 barrels per day which is needed to move both the Syncrude oil and the crude oil currently being produced in fields near Redwater. The completed oil sands pipeline system will consist of 270 miles of 22-inch diameter pipe and a design capacity of 163,500 barrels per day.

To date, AOSPL has acquired a substantial portion of the required pipeline system right-of-way. As well, applications have been filed with the appropriate regulatory bodies for permits to construct and operate the line.

Construction of this important link to the Syncrude Project is expected to commence in 1976. AOSPL has retained two consulting engineering firms to design and construct the proposed pipeline system. AOSPL has ordered essentially all of the pipe from Interprovincial Steel and Pipe.

Contractual arrangements relating to the oil sands pipeline are being finalized with the six participants in the Syncrude Project — Government of Canada, Government of Alberta, Government of Ontario, Imperial Oil Limited, Gulf Oil Canada Limited and Canada Cities-Service Ltd. Tariffs will be structured so as to allow AOSPL to earn a satisfactory return on equity investment after paying all operating expenses including taxes, depreciation and amortization charges, and interest costs.

The negotiations currently in progress include a proposal to have the Syncrude participants guarantee the principal and interest on all debt used to finance construction of the oil sands pipeline. It is expected that an 80% debt — 20% equity financing plan will evolve; this would necessitate AEC investing approximately $16 million in equity.

Petrochemicals

In contrast to the past ten years, the Canadian petrochemical industry now looks ahead to a period of improved growth.

Several factors point to petrochemical expansion in Canada. Firstly, reserves of crude oil and, more particularly, natural gas, are declining in the United States. Hence, the surpluses of low-cost natural gas liquids, which gave the Gulf Coast petrochemical industry a tremendous competitive advantage, are now disappearing. Secondly, the demand for intermediate and end-use synthethic materials is now increasing to the level where world-scale derivative plants are economically feasible in Canada.

These conditions provide opportunity for Alberta to attempt to establish some petrochemical projects outside of the traditional manufacturing centres in central Canada. Higher transportation costs will, however, have to be overcome. Labor shortages, for plant construction, are also a deterrent.

Alberta is a major producer of natural gas and natural gas liquids, of which condensate, and more specifically pentanes-plus, is one of the major constitutents.

AEC is part of a joint venture whose purpose is to establish a petrochemical project in Alberta. This venture is still in its preliminary stages and is definitely not yet close to a go-ahead decision.

In late 1975, AEC, Hudson's Bay Oil and Gas Company, Mitsubishi Petrochemical Company and Mitsubishi Corporation joined forces with the objective of conceiving, developing and implementing a viable world-scale petrochemical project in Alberta. The four participants signed a Letter of Understanding which stipulates that AEC has the right to acquire up to 51% interest in the proposed venture and which set up a joint Project Committee, of which an AEC representative is Chairman, to develop the project, known under the name Petrochemicals Alberta Project (Petalta).

After completing extensive studies, the Project Committee concluded that the best way to develop the project is to use pentanes-plus as a basic feedstock. Pentanes-plus can be processed to yield ethylene, propylene, butadiene, butylenes, benzene, toluene, and xylenes, all of which are petrochemical intermediates and, in various combinations, can provide feedstock to secondary and tertiary processes for the manufacture of a variety of synthetic materials such as plastics, fibres, insulation materials, resins, etc.

Recently, the four participating companies filed a joint application with the Energy Resources Conservation Board of Alberta for an Industrial Development Permit to construct a benzene plant venture northeast of Fort Saskatchewan. A public hearing of the application will be held in the near future.

Steel Alberta Ltd.

Spiral pipe manufactured by the IPSCO Edmonton Plant

Steel Alberta was formed in 1974 to investigate and assess the merits of investment in the Western Canadian steel industry. In October 1975, AEC acquired a 50% interest in Steel Alberta.

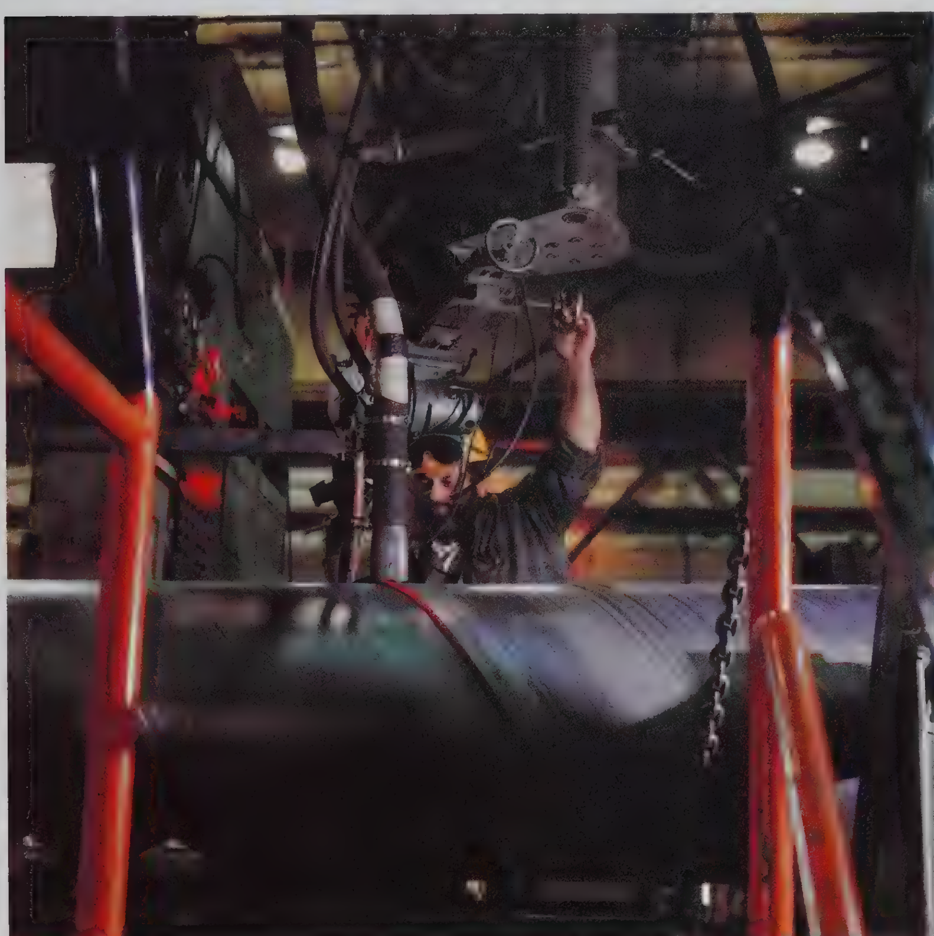
Steel Alberta's principal objective, is to assess facets of the steel industry in Western Canada and invest in only those areas which indicate acceptable profit potential. To this end, Steel Alberta is now in the process of estabishing an experienced, competent nucleus of people who will investigate all aspects of the steel industry to determine where attractive investment opportunities exist.

Steel Alberta's major asset is the 938,400 shares (20.1%) which it holds in the Interprovincial Steel and Pipe Corporation Ltd. (IPSCO), an integrated steel company involved in the manufacture of steel pipe, casing, structural tubing and sheet metal. AEC acquired the IPSCO shares at a price of $11.41 per share; at March 19, 1976, the closing price on the Toronto Stock Exchange was $14-3/8 per share.

IPSCO's Regina mill has the capacity to produce 600,000 tons of raw steel annually and IPSCO also operates steel processing facilities in Alberta and British Columbia. The principal market for IPSCO's products is the oil and gas industry in Western Canada.

In the fiscal year ending August 31, 1975, IPSCO had sales of $151.8 million and net earnings of $17.1 million. Approximately 10% of future IPSCO earnings will accrue to AEC, by means of equity accounting treatment being applied to such income in Steel Alberta Ltd.

The extensive industrial development underway or planned for Western Canada during the next few years is forecast to initiate a strong demand for steel and steel products. At present, Western Canada produces less than 50% of its own steel requirements.



Outside welding station at Edmonton

Future Activities

In addition to its present projects, AEC is appraising new opportunities for investment. Most of the Company's original equity proceeds of $150 million are available to finance growth. It is anticipated, however, that approximately $75 million, together with additional funds obtained through prudent borrowing, will be required for early bonus and drilling costs relating to Suffield and to provide necessary equity for the Syncrude-related oil pipeline and utility plant. Resolution of the challenge and opportunity to profitably invest the remaining $75 million will be a major factor in AEC's next phase of growth. This equity, plus the expectation of reasonable debt leverage, allows us to plan early additional investments.

While no limitations exist as to where AEC may invest, early emphasis will be placed on participating in the resource and industrial development of Western Canada, particularly of Alberta. Alberta possesses a rapidly-expanding economy, major supplies of available energy and many types of undeveloped natural resources. It also has stability which is conducive to investment.

Investments will be made with the expectation that profit levels will be commensurate with AEC's assessment of risk in each project. Additionally, in situations where the Company does not have the capability to operate and market independently, AEC will endeavour to align itself with a partner of complementary capability and expertise. However, minority interests in separate companies will be avoided, when possible, since AEC prefers direct access to cash flow.

AEC intends to seek out and investigate investment opportunities related to the manufacturing and processing sectors, as well as the energy sector. At the present time, investigations are being conducted in the petrochemical, coal, forestry and steel industries.

In the fall of 1975, there was a public announcement of a large petrochemical project in Alberta. At the time of preparing this report, no decision has been made by AEC as to its possible investment in the ethane extraction and gathering system, underground storage facilities or Cochin Pipeline, related to this proposed petrochemical complex.

The Company is concentrating on projects within Alberta, but outside investments will also be considered — particularly if they relate to the economy of Alberta. The Company's investment policy emphasizes projects that are capital intensive and of a long-range nature. It does not, however, preclude appraisal and possible investment in smaller projects.

Guards were required for share applications, averaging $7 million for each business day of the offering period, from the time received until deposited in the bank.

Share Sale and Shareholders

Our initial sale of common shares to the public, in the amount of $75 million, was completed in December, 1975 following the issue of the same number of the shares to the Government of Alberta earlier in the year. The size of the offering reflected a desire to attain equal ownership between the Alberta Government and private investors.

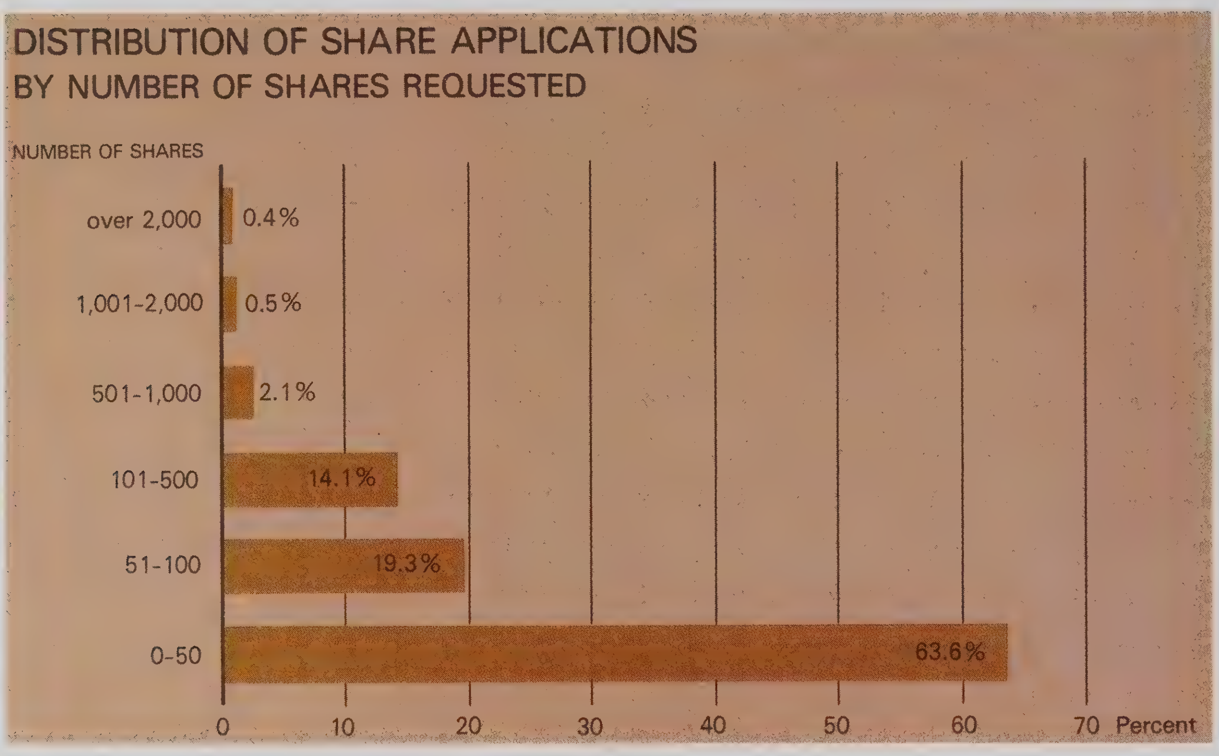
It was planned that after Alberta residents had an opportunity to subscribe for shares during the fifteen-day Alberta Priority Period the remainder of the 7,500,000 shares would be offered to other Canadians. However, as a result of the Alberta subscriptions for a total of 7,800,000 the plan to sell outside Alberta was set aside and the implementation of a share allocation system was necessary. Applications for 2,000 or less shares (which constituted over 99 % of the applicants) were accepted in full while the largest applicants were allotted approximately 70 % of the shares they requested.

AEC is gratified by the confidence that Albertans have shown in the Company as exemplified by the over-subscription of the $75 million share offering. The issue was one of the largest equity offerings in the history of Canada, and we believe the largest issue of common stock for a new company ever to take place in Canada. Considering the province's 1.7 million population, the AEC issue would be equivalent to selling shares totalling $1 billion throughout all of Canada.

The overwhelming Alberta response was made possible by the selling method chosen, whereby AEC attempted to make shares available to as many Albertans as possible, including those living in areas where the services of investment dealers were not readily accessible. To accomplish this, shares were offered through the branches of chartered banks, Alberta treasury branches, and participating trust companies and credit unions, as well as the customary investment dealer offices. In total, there were over 800 sales outlets. This unusual share distribution system was very successful in that approximately 77 % of all applications and 54 % of total share proceeds were received by chartered banks, Alberta treasury branches, trust companies and credit unions, who provided sales facilities throughout the Province. It is interesting to note that about one-third of the applicants resided outside of Alberta's two major cities; the other two-thirds of the applications came almost equally from Calgary and Edmonton residents.

Of the 62,000 applications received, about 98 % came from individuals. Approximately 97 % of the applications were for 500 shares or less, with orders for 100 shares or less representing 83 % of the total applications. The largest application was for 100,000 shares, for $1 million.

An active over-the-counter market developed subsequent to the issue of AEC shares to the public. Trading on the Alberta Stock Exchange commenced on December 23, 1975, followed by listing in Montreal, Toronto and Vancouver on January 26, 1976. Since being listed on these four Canadian stock exchanges, AEC shares have traded in the range of $9-1/8 to $10-1/8.



Financial Review

AEC's net income in 1975 was $3,981,000 or 52c per share. This compares with a loss of $242,000 in 1974, when the company was in an early formative stage. The Company's major source of revenue during 1975 was interest earned on funds received from the sale of shares in 1975.

Following the sale of shares to Alberta residents in December, 1975, the Company ceased to be a Crown Corporation and became subject to corporate income tax. If AEC had been subject to income tax for all of 1975, earnings per share would have been 29c rather than the reported 52c.

During the year, 15,061,964 shares were issued for a net realization, after deducting issue expenses, of $146,995,000. A portion of the money obtained from the share issue was expended on capital assets and investments which totalled $25,000,000 during 1975. This included $14 million to meet the initial Suffield acquisition payment, $5 million for the Syncrude pipeline and development costs and $6 million provided to Steel Alberta for the purchase of IPSCO shares.

The balance of proceeds from the share issue was invested in short-term interest-bearing securities of government institutions, Canadian chartered banks, and various industrial and financial corporations. The short-term portfolio, which approximated $128 million at December 31, 1975, will be liquidated as funds are required for long-term investments such as the equity investment in AEC Power Ltd., construction of the oil sands pipeline and development of the Suffield shallow gas reserves.

ALBERTA ENERGY COMPANY LTD. and subsidiary company

Consolidated Balance Sheet

	December 31	
	1975	1974
ASSETS		
Cash, Short-Term Deposits and Accrued Interest	$128,085,685	$ 13,411
Investment in Affiliated Companies (Note 3)	6,855,642	901,127
Property, Plant and Equipment (Note 4)	60,211,556	511,031
Other Assets (Note 5)	834,035	10,831
	$195,986,918	$1,436,400
LIABILITIES		
Bank Indebtedness	$	$1,468,183
Accounts Payable	5,150,553	210,196
Income Taxes	102,000	
Deferred Balance of Acquisition Cost of Suffield Block Rights (Note 4)	40,000,000	
	45,252,553	1,678,379
SHAREHOLDERS' EQUITY		
Share Capital (Note 6):		
Authorized — 100,000,000 shares without par value which may be issued for a maximum consideration of $500,000,000		
Issued and fully paid — 15,062,064 shares (1974 - 100 shares)	146,995,526	100
Retained Earnings (Deficit)	3,738,839	(242,079)
	150,734,365	(241,979)
	$195,986,918	$1,436,400

Approved by the Board:

D. Mitchell Director

M. E. Lomas Director

ALBERTA ENERGY COMPANY LTD. and subsidiary company

Consolidated Statement of Income

	Year Ended December 31	
	1975	1974
Interest Income	$5,289,518	$ 57,274
Expenses:		
General and administrative	1,469,633	294,080
Depreciation and amortization	21,967	
	1,491,600	294,080
	3,797,918	(236,806)
Share of Income (Loss) of Affiliated Companies	285,000	(5,273)
	4,082,918	(242,079)
Provision for Income Taxes (Note 7)	102,000	
Net Income (Loss)	$3,980,918	$(242,079)

Consolidated Statement of Retained Earnings (Deficit)

	Year Ended December 31	
	1975	1974
Balance — Beginning of Year, as previously reported	$	$
Restatement of Deferred Costs (Note 2)	242,079	
Balance — Beginning of Year, as restated	(242,079)	
Net Income (Loss)	3,980,918	(242,079)
Balance — End of Year	$3,738,839	$(242,079)

ALBERTA ENERGY COMPANY LTD. and subsidiary company

Consolidated Statement of Changes in Financial Position

	Year Ended December 31	
	1975	1974
Source of Funds:		
Funds derived from (used in) operations —		
Net income (loss)	$ 3,980,918	$ (242,079)
Items not requiring an outlay of funds —		
Depreciation and amortization	21,967	
Share of (income) loss of affiliated companies	(285,000)	5,273
	3,717,885	(236,806)
Issue of share capital (Note 6)	146,995,426	
Increase in accounts payable	4,940,357	210,196
Increase in income taxes	102,000	
Deferred balance of acquisition cost of Suffield Block rights	40,000,000	
	195,755,668	(26,610)
Application of Funds:		
Investment in affiliated companies	5,669,515	906,400
Additions to property, plant and equipment	59,769,145	511,031
Increase in other assets	776,551	10,831
	66,215,211	1,428,262
Increase (Decrease) in Funds	129,540,457	(1,454,872)
Funds (Deficiency) — Beginning of Year	(1,454,772)	100
Funds (Deficiency) — End of Year	$128,085,685	$(1,454,772)
The components of the Funds (Deficiency) are:		
Cash, short-term deposits and accrued interest	$128,085,685	$ 13,411
Bank indebtedness		1,468,183
Funds (Deficiency) — End of Year	$128,085,685	$(1,454,772)

Notes to Consolidated Financial Statements

December 31, 1975

1. Significant Accounting Policies

   (a) Principles of Consolidation

   The consolidated financial statements include the accounts of Alberta Energy Company Ltd. ("AEC") and its wholly-owned subsidiary, Alberta Oil Sands Pipeline Ltd.

   (b) Affiliated Companies

   AEC has adopted the equity method of accounting for investment in affiliates, whereby its proportionate share of the affiliates' income or loss is included in income, and the investment is carried at cost plus equity in undistributed income since acquisition.

   (c) Petroleum and Natural Gas Properties

   AEC employs the full cost method of accounting for investments in petroleum and natural gas properties and capitalizes all costs related thereto.

   (d) Depreciation

   Fixed assets are depreciated on the straight-line method over their estimated useful lives.

2. Change in Accounting Policy

During the year AEC adopted a policy of charging to income, rather than deferring, costs relating to the commencement of operations. This policy was retroactively applied and accordingly the financial statements for the year ended December 31, 1974 have been restated to charge to income $242,079 previously deferred.

3. Investment in Affiliated Companies

The investment in affiliated companies is comprised of:

	1975			1974
	Pan-Alberta Gas Ltd.	Steel Alberta Ltd.	Total	
Common shares	$ 6,400	$ 10,000	$ 16,400	$ 6,400
Advances	900,000		900,000	900,000
10% income debenture due in 1985		5,659,515	5,659,515	
Equity in undistributed income since acquisition	727	279,000	279,727	(5,273)
	$907,127	$5,948,515	$6,855,642	$901,127

Pan-Alberta Gas Ltd.

AEC holds a 49.2% interest in Pan-Alberta Gas comprising 40% of the Class "A" (voting) and 50% of the Class "B" (non-voting) common shares. In the event that Pan-Alberta Gas makes a public offering of its Class "B" shares, which would require the prior consent of AEC, AEC would be obligated to purchase an additional 5,994,000 Class "B" shares. Pan-Alberta Gas does not presently contemplate making an offering to the public of such shares, nor has AEC given its consent to any such offering.

AEC is committed to loan Pan-Alberta Gas up to $2,000,000 towards that company's operating costs. To December 31, 1975, $900,000 has been advanced under this commitment. The advances are repayable on demand and bear interest at a floating rate, currently 10-3/8% per annum.

Steel Alberta Ltd.

AEC acquired 10,000 common shares (50%) of Steel Alberta on October 7, 1975. Steel Alberta's principal asset is 938,400 common shares (20.1%) of Interprovincial Steel and Pipe Corporation Ltd. ("IPSCO"). The investment in and earnings of IPSCO are accounted for on the equity method.

4. Property, Plant and Equipment

Property, plant and equipment consists of the following, at cost:

	1975		1974
Preliminary costs of projects under development —			
Alberta Oil Sands Pipeline (Note 9)			
Engineering development costs.	$ 1,487,636		
Pipe.	4,053,404	$ 5,541,040	$412,253
Suffield Block			
Petroleum and natural gas lease rights.	54,000,000		
Preliminary costs	278,930	54,278,930	93,277
Equipment and leasehold improvements — net of accumulated depreciation and amortization of $21,967 (1974 - nil).		391,586	5,501
		$60,211,556	$511,031

Suffield Block

As of September 15, 1975, AEC agreed to acquire from the Government of Alberta ("Alberta") and Alberta agreed to lease to AEC the petroleum and natural gas rights to approximately 613,000 acres of lands located in south-eastern Alberta. The agreement with Alberta provides that the consideration for the leases is $54,000,000 plus, in certain events, other amounts dependent upon the value of production. Of the $54,000,000, $14,000,000 was paid on November 7, 1975, $10,000,000 is payable three months after the commencement of gas sales, and the balance is payable in annual instalments of $10,000,000 each, beginning one year after recovery by AEC out of its share of production (net of royalties) of an amount equal to all the costs and expenses of the Suffield Block. If, in any year after the above payments have been made and have been recovered by AEC out of its share of net production, one-half of the net production proceeds from the leased rights exceeds the royalties paid or payable to Alberta, Alberta will receive the difference between the royalties paid or payable (before any deduction for credits or royalty rebates) and one-half of the net production proceeds.

5. Other Assets

Other assets include loans of $593,615 to officers and employees under Share Purchase Plans.

6. Share Capital

(a) Shares were issued in the year for cash as follows:

	Number of Shares	Issue Price Per Share	Net Price Received Per Share	Net Proceeds
January 15, 1975.	7,500,000	$10.00	$10.00	$ 75,000,000
December 8, 1975.	7,500,000	$10.00	$ 9.58(1)	71,401,811(2)
December 8, 1975.	61,964	$ 9.58	$ 9.58	593,615
	15,061,964			146,995,426
Share capital — December 31, 1974	100			100
Share capital — December 31, 1975	15,062,064			$146,995,526

(1) After deducting Agents' commission and Dealer Managers' fee of $.32 and $.10 per share respectively.

(2) After deducting net expenses of issue, including Agents' commission and Dealer Managers' fee, totaling $3,598,189.

(b) 13,036 shares are reserved for a Share Purchase Plan established for officers and employees of AEC.

7. Income Taxes

AEC became subject to income tax on December 8, 1975 upon issuance of more than 10% of its shares to the public and will be subject to the same federal and provincial tax laws as other taxable Canadian companies conducting similar businesses.

8. Earnings Per Share

Earnings per share, based on the weighted average number of shares outstanding during the year, amounted to 52 cents. Had AEC been subject to income tax throughout the year the earnings per share would have been 29 cents.

9. Syncrude Project

(a) Utilities Plant

AEC is negotiating to own the facilities presently under construction (the Utilities Plant), which will supply electricity, steam and other services to the Syncrude Project and to have the participants in the Syncrude Project manage the construction of and operate the Utilities Plant. The estimated cost of the Utilities Plant to meet the projected initial power requirements of the Syncrude Project is projected to be $300,000,000, including estimated interest during construction. It is proposed that 90% of such cost will be financed with borrowed funds and AEC through an affiliate, AEC Power Ltd., will provide two-thirds of the equity investment required. Completion of the facilities is scheduled for 1978. The costs of the Utilities Plant to December 31, 1975 including interest during construction are estimated to be $59,000,000.

(b) Alberta Oil Sands Pipeline

AEC is negotiating to transport by pipeline from Mildred Lake to Edmonton all synthetic crude oil produced by the Syncrude Project. In addition, AEC is negotiating the purchase from its present owner of an existing pipeline from Redwater to Edmonton. The total cost to AEC of the pipeline from the Syncrude Project to Edmonton, including the pumping and storage facilities and the acquisition and upgrading of the existing pipeline and interest during construction, is estimated to be $80,000,000. Alberta Oil Sands Pipeline Ltd. ("AOSPL"), a wholly-owned subsidiary of AEC, has entered into a contract relating to the design for and construction of the proposed pipeline system and has committed to purchase the pipe for the proposed pipeline system from Interprovincial Steel and Pipe Corporation Ltd. at an estimated cost of $13,000,000. To December 31, 1975 AOSPL had purchased approximately $4,000,000 of this pipe.

(c) AEC Syncrude Option

The definitive terms of an option to participate in the Syncrude Project are presently being negotiated. The Government of Alberta has advised that this option will be held by AEC. The option will be for a participating interest of not less than 5% nor greater than 20% in the Syncrude Project and will be exercisable prior to the end of the sixth month after the Syncrude Project has produced 5,000,000 barrels of synthetic crude oil or December 31, 1982, whichever is the earlier. If AEC exercises this option the purchase price of the participating interest acquired will be the participating interest share of all costs (less revenue) incurred for the Syncrude Project from February 23, 1972 to the date of exercise, plus interest.

10. Remuneration of Directors and Senior Officers

The aggregate direct remuneration paid by AEC and its subsidiary to its directors and senior officers in 1975 was $56,000 and $240,288 respectively, and in 1974 was $11,450 and $29,327 respectively.

Auditors' Report

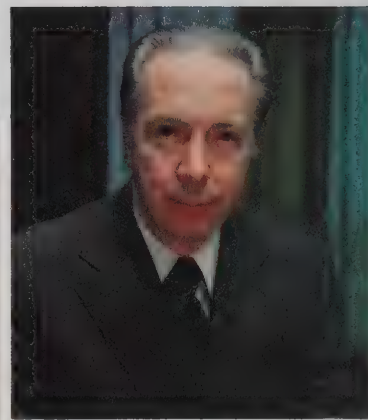
To the Shareholders of
Alberta Energy Company Ltd.

We have examined the consolidated balance sheet of Alberta Energy Company Ltd. and its subsidiary company as at December 31, 1975 and the consolidated statements of income, retained earnings (deficit) and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the reports of other auditors for Alberta Energy Company Ltd.'s investment in Pan-Alberta Gas Ltd. and Steel Alberta Ltd.'s investment in Interprovincial Steel and Pipe Corporation Ltd.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in accounting policy as described in Note 2 to the consolidated financial statements, on a basis consistent with that of the preceding year.

PRICE WATERHOUSE & CO.
Chartered Accountants
Edmonton, Alberta
February 11, 1976

MATHEW M. BALDWIN



DAVID E. MITCHELL

EDWARD A. GALVIN

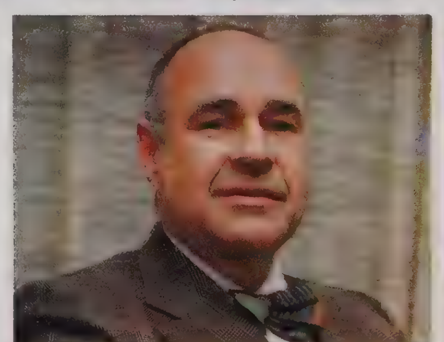
M. EARL LOMAS, Q.C.

PETER L. P. MACDONNELL, Q.C.

JOHN E. MAYBIN

STANLEY A. MILNER

RAYMOND J. NELSON



GORDON H. SISSONS

J. HARRY TIMS

Board of Directors

DAVID E. MITCHELL
President and Chief Executive Officer, Alberta Energy Company Ltd., Calgary, Alberta
A Petroleum Engineering graduate, Mr. Mitchell is a registered Professional Engineer in the Province of Alberta. He was President of a prominent resource-based company prior to assuming his duties with the Alberta Energy Company Ltd. He has been a director or President of several industry associations and is presently a member of the National Advisory Committee on Petroleum. As well as being active in the community, Mr. Mitchell holds several corporate directorships.

MATHEW M. BALDWIN
Company Director, Edmonton, Alberta
Mr. Baldwin is a Petroleum Engineering graduate of the University of Alberta. He was formerly President of Baldwin & Knoll Limited (a company he founded in 1950), one of the largest oil well servicing companies in Canada. Mr. Baldwin is a director of several private companies associated with the oil and gas industry and the construction development business.

EDWARD A. GALVIN
Vice Chairman, Norcen Energy Resources Limited, Calgary, Alberta
A registered Professional Engineer in the Province of Alberta, Mr. Galvin has been associated with the oil and gas industry since 1938. He is on the Boards of directors of several prominent Canadian companies and is active in a number of industry and community associations.

M. EARL LOMAS, Q.C.
Partner, Macleod Dixon, Barristers and Solicitors, Calgary, Alberta
A law graduate from the University of Alberta, Mr. Lomas was appointed a Queen's Counsel in 1973. As well as holding directorships in several companies and charitable organizations, he is a member of the Calgary and Canadian Bar Associations and the Law Society of Alberta. Mr. Lomas is Assistant Secretary of the Alberta Energy Company Ltd. and Chairman of Steel Alberta Ltd.

PETER L. P. MACDONNELL, Q.C.
Partner, Milner & Steer, Barristers and Solicitors, Edmonton, Alberta
Mr. Macdonnell, a law graduate of Cambridge University and Osgoode Hall, Toronto, was appointed a Queen's Counsel in 1964. Active in the community, Mr. Macdonnell is also a director of many Canadian corporations and other organizations. He is a member of the Law Societies of Great Britain, Ontario and Alberta.

JOHN E. MAYBIN
Chairman of the Board, Canadian Utilities Limited, Toronto, Ontario
An Engineering and Physics graduate of the University of Alberta, Mr. Maybin has held various management responsibilities with Canadian Utilities and its principal operating companies in Alberta. He has served as a director of various industry associations and other Canadian companies.

STANLEY A. MILNER
President, Chieftain Development Co. Ltd., Edmonton, Alberta
Mr. Milner is a graduate of the University of Alberta. In 1964, he founded Chieftain Development, an Edmonton-based independent oil and gas exploration company. He is a member of several professional and industry organizations and also holds directorships in a number of other companies.

RAYMOND J. NELSON
President, Nelson Lumber Company Ltd., Lloydminster, Alberta
Mr. Nelson is one of the founders of Nelson Lumber Company Ltd., which has large retail yards in Lloydminster and Edmonton. Through its Nelson Manufactured Homes Division, it is one of Canada's largest home manufacturers with offices across Western Canada, the Territories and the Yukon. He is very active in the Lloydminster community in addition to being a director of several companies.

GORDON H. SISSONS
President, I-XL Industries Ltd., Medicine Hat, Alberta
Mr. Sissons is an Engineering graduate of the University of Alberta. In addition to being President of Redcliff Pressed Brick Company Ltd. and Redcliff Premier Natural Gas Limited, he is a director of several other companies and is involved in many business and community organizations.

J. HARRY TIMS
President and General Manager, McTavish McKay & Company Limited, Calgary, Alberta
A Civil Engineering graduate, Mr. Tims is a registered Professional Engineer in the Province of Alberta. He has been engaged in the construction business for 25 years and has been active in various executive posts of construction industry associations.

Officers and Senior Management

C. KENNEDY ORR

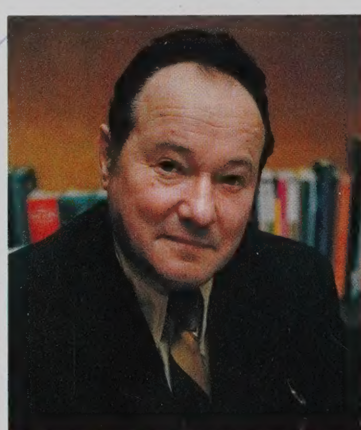
ARNOLD LARSEN

KENNETH R. KING

NICHOLAS J. LASHUK

ARLENE J. MOORE

FRANK W. PROTO



DAN G. HAVLENA

WILLIAM L. WALSH

ARNOLD LARSEN
Vice President, Corporate

A graduate in Economics and Business Administration, Mr. Larsen has held a series of senior management positions. Prior to joining the Alberta Energy Company Ltd., he was Senior Vice President of a large resource-based firm and served as a Director of several industry organizations.

C. KENNEDY ORR
Vice President, Finance

Mr. Orr, a Chartered Accountant, is currently Chairman of the Board of the Financial Executives Institute Canada. Prior to joining the firm, he was Executive Vice President of a prominent natural gas purchasing company in Calgary.

KENNETH R. KING
Vice President, Business Development

Mr. King, a graduate of the University of Manitoba and the Pennsylvania State University, has served as President of the Economics Society of Alberta. He was previously Manager, Economics of the Company.

NICHOLAS J. LASHUK
Vice President, Operations

A Chemical Engineering graduate of the University of Alberta, Mr. Lashuk is a registered Professional Engineer in the Province of Alberta. He was formerly Manager, Pipelines of the Company and has held senior management positions in the natural gas and pipeline business.

ARLENE J. MOORE
Corporate Secretary

Mrs. Moore was formerly Assistant Corporate Secretary of the Company. Prior to joining Alberta Energy Company Ltd., she held various senior positions, including Administrative Assistant to the President of a large resource-based Canadian company.

DAN G. HAVLENA
Manager, Evaluations

Mr. Havlena, a graduate in Mining Engineering, has advanced degrees in Petroleum Engineering and Physics. He previously had senior management responsibilities with a large consulting firm.

FRANK W. PROTO
Manager, Personnel

A graduate of the University of Saskatchewan, Mr. Proto has had personnel management responsibilities with a major mining company in Toronto. He has also held other related positions in Western Canada.

WILLIAM L. WALSH
Manager, Administrative Services

Prior to joining Alberta Energy Company Ltd., Mr. Walsh was employed by the Company as a consultant. He has had extensive experience and executive management responsibilities in the insurance industry in Western Canada.

Corporate Information

HEAD OFFICE:

#1100, 10621 - 100 Avenue
Edmonton, Alberta
T5J 0B3

ADDITIONAL EXECUTIVE OFFICES:

#1000, 540 - 5th Avenue S.W.
Calgary, Alberta
T2O 0M3

TRANSFER AGENTS:

National Trust Company, Limited
330 - 9th Avenue S.W.
Calgary, Alberta
T2P 1K7

AUDITORS:

Price Waterhouse & Co.
Chartered Accountants
Box 2950, Postal Station A
Edmonton, Alberta
T5J 2G5

SOLICITORS:

Macleod Dixon
555 Bentall Building
444 - 7th Avenue S.W.
Calgary, Alberta
T2P 0Y1

The Company's employee strength grew from four in January, 1975 to a total of forty-three at the year end with numbers divided equally between the Calgary and Edmonton offices. Staff recruitment will continue at a high level during 1976 with current projections indicating about one hundred employees by the end of 1976.

DUPLICATE ANNUAL REPORTS

AEC encourages those shareholders who received more than one copy of the Annual Report to consolidate their holdings under the exact same name in order to eliminate receiving future duplications.

Printed in Alberta

Alberta Energy Company Ltd.

1975 ANNUAL REPORT